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## Russian Federation

### Livestock and Products

### Meat Smuggling Increasing 2005

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**Report Highlights:**

Russian producers are beginning to complain that prices are falling due to a glut of smuggled meat. While the price trend has not yet turned downward for most meats nationwide, smuggling has been influencing prices in many regions. As a result, the Russian Government is under increasing pressure to restrain price growth to a moderate rate to keep both consumers and producers happy, while eliminating illegal imports.

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## Summary

Following criticism from President Putin that meat prices continue to rise too quickly, Russian meat industry representatives are pressing the case that the opposite is actually true. They claim that Russian meat prices are now declining due to smuggling. In fact, both rising prices and higher rates of smuggling accurately describe the situation in the first half of 2005 (See GAIN RS5021).

Few industry sources dispute that smuggling has once again become an important factor in the Russian meat market. While “smuggling” in its classic sense is not as pronounced as in the late 1990’s, various schemes to change the product’s country of origin through minor processing or mislabeling have proliferated. Artificially high prices resulting from the meat and poultry TRQs and barriers to entering the new import trading structure have created incentives for smuggling meat. As a result, significant quantities of meat have been brought into Russia outside of the formal import structure in 2005. Though it is hard to confirm the exact level of illegal imports, it is having an impact in the meat market, especially in certain regions near Russia’s borders.

Below is an informal translation of one article that describes the viewpoint of Russian producers and importers.

### **Rossiyskaya Gazeta (Official newspaper of the Government of the Russian Federation)**

Dmitry Ivanov

July 12, 2005

#### ***Importers beat meat prices down***

“Indeed, they do it by way of illegal supply.”

“After six months of growth, the rise in meat prices has slowed down. According to importers and meat processors, the key reason is illegal deliveries. Illegal smugglers already provide for over ten percent of Russia’s total meat imports. Next year, according to experts, the share of meat on the market illegally imported onto Russia will continue to increase.”

“After introducing quotas for meat imports, prices have been going up constantly. According to the Russian Meat Union, in the (recent) six-month period prices for poultry meat has grown by almost 30 percent, pork by 20, and a similar price increase for beef. Today, according to industry representatives, prices are going down. And the main reason for the decrease, in their view, is smuggling. According to different estimates, about ten percent of the total volume of meat imported into Russia is smuggled, while this estimate reaches 20 percent for poultry meat. According to the decrees that introduced quotas on imported meat this year, Russia can import 1.05 million metric tons (MT) of poultry, 315,000 MT of beef within a preferential duty, and 337,500 MT of pork.”

“As importers say, the major illegal channels are located in the south and east of Russia. For example, pork from Eastern European countries is moved through the southwestern border. “Meat arrives in Ukraine, goes through processing there, and gets Ukrainian labels,” says the head of the Meat Union Musheg Mamikonyan. “Then, being passed off as Ukrainian, the meat goes to Russia. And when imported from Ukraine, with which we have common free market zone, customs duties do not apply.” “Brazilian pork travels by “gray” and “black” schemes via Moldova and Georgia,” added Head of the National Meat Association Sergey Yushin. Chicken from China is imported to Russia through the eastern border. The market players comment that China did not even fight for a country quota for 2005 and 2006. “It’s not an issue for

China. They are confident that they will sell Chinese meat to Russia without the quota: there's plenty of chicken in China and prices aren't high," says one of the importers. It is clear the profits from illegal shipments are much higher than from official imports. As usual, smuggled products are traded at 10-20 percent below products imported in a legal way. Musheg Mamikonyan believes that in 2006 the tendency towards the increase in illegal deliveries may remain. It is not inconceivable that the customs will create a mechanism to control smugglers. Recently, the Federal Customs Service held a meeting where the customs leadership was inventing new methods of controlling food smuggling. However, we failed to receive Customs' comments regarding the issue."

"We cannot say that smuggled meat shipments have intensified by the end of this month. According to importers, smuggling has been going on in the course of this whole year, but it was due to legal shipments that it was "discovered". During all of those months prices had been going up and importers waited when they would reach their maximum. "In recent months imports increased and the market became somewhat saturated," says Aleksander Stoklitskiy, director of the company Food Program. "Now it (the market) is being pushed by illegal shipments." According to Stoklitskiy, smuggled shipments freeze the market. "In order to sell the large supplies of the illegal meat, it is dumped (sold at dumping prices) by illegal suppliers, and legitimate sellers also decide to lower their price," says Stoklitskiy. But there is no big demand for meat. First of all, low demand relates to the fact that meat processors did not wait until the end of the year and have already paid for supplies. They do not have new funds to buy low priced meat. Customer demand is also weak. "Expensive products sell well today, but there are no sales in the low price segment," says Stoklitskiy. "It means that consumers from this category have no money."

Comment: Economic theory tells us high profit margins breed competition and that artificially restricting supply causes profits to rise. Russian regulators and politicians are learning that theory can sometimes be uncomfortably close to reality.